

## Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20 IGA-02 STR-08

DRC-01 /124 W

----- 070650

R 121200Z MAR 74

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 3630

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L MANAGUA 0916

SAN SALVADOR FOR AGATT

GUATEMALA FOR ROCAP

E. O. 11652: GDS

TAGS: EAGR, ETRD, NU

SUBJECT: GON INTERVENES TO SETTLE COTTON DISPUTE

1. AFTER SEVERAL MONTHS OF SLOW DELIVERIES OF COTTON SOLD ON FUTURES CONTRACTS, THE GON INTERVENED AND ISSUED A DECREE DICTATING NEW TERMS OF SETTLEMENT ON MARCH 7. THE DECREE, BASED ON EMERGENCY ECONOMIC POWERS, PROVIDED IN ARTICLE 86 OF THE CONSTITUTION, STATES THAT: (1) COTTON PRODUCERS ARE OBLIGATED TO DELIVER WITHOUT DELAY SEVENTY PERCENT OF THEIR FUTURES CONTRACTS AT CONTRACT PRICE; (2) ONCE THE SEVENTY PERCENT IS RECEIVED BY THE BUYERS, THEY MUST CONSIDER THE CONTRACTS FULFILLED AND PURCHASE THE REMAINING THIRTY PERCENT AT INTERNATIONAL MARKET PRICES; AND (3) NO COTTON WILL BE PERMITTED TO BE EXPORTED WHICH CONTRAVENES THIS DECREE. AN ADDITIONAL PROVISION EXEMPTS FROM THE DECREE

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COTTON SOLD FOR MORE THAN 50 CENTS A POUND AND COTTON

COVERED BY PREVIOUS AGREEMENTS BETWEEN BUYERS AND SELLERS.

2. ACCORDING TO THE DECREE, THE GOVERNMENT INTERVENED "AT THE REQUEST OF THE REPRESENTATIVES OF THE COTTON COOPERATIVES TO TAKE THE NECESSARY MEASURES TO ASSURE THE PROMPT EXPORTATION OF THE COTTON." WE UNDER THE "REQUEST" WAS PROMPTED BY A THREAT TO CALL IN OVERDUE NATIONAL BANK LOANS WHICH FINANCED MUCH OF THE CROP.

3. EXECUTIVES OF THE LEADING U.S. BROKERAGE FIRMS, ACCOMPANIED BY THEIR ATTORNEY, VICTOR FRIEDMAN, VISITED MANAGUA MARCH 7 AT THE REQUEST OF GENERAL SOMOZA AND CONSULTED WITH HIM BEFORE THE DECREE WAS ISSUED. THE BROKERS TOLD THE EMBASSY THAT THEY HAD ACCEPTED THE DECREE AND HOPED IT WOULD RESULT IN PROMPT DELIVERIES OF UNFULFILLED CONTRACTS. THEY GAVE GENERAL ZOMOZA ASSURANCES THAT THEY WOULD DO THEIR BEST TO MOVE THE BULK OF THE CROP BEFORE THE MAY RAINS; THAT THEY WOULD GUARANTEE A PRICE OF 60 CENTS A POUND UNTIL MARCH 15 FOR THE THIRTY PERCENT (THEY CLAIMED THIS WAS ABOVE THE CURRENT MARKET); AND THAT THEY WOULD ATTEMPT TO REPAIR THE DAMAGE DONE NICARAGUA'S REPUTATION IN THE COTTON TRADE BY THE EARLIER NON-DELIVERY.

4. COMMENT: THE GON REVERSED ITS EARLIER REFUSAL TO INTER- VENE IN THE CONTRACT DISPUTE AFTER IT BECAME CLEAR THAT THE CROP WAS NOT MOVING AND THAT UNLESS SOMETHING WAS DONE SOON, THE APPROACHING RAINY SEASON WOULD SERIOUSLY DAMAGE ITS VALUE. THE DECREE SHOULD BREAK THE IMPASSE WHICH HELD COTTON EXPORTS TO A FRACTION OF NORMAL. ARRANGING SHIPPING WILL PRESENT THE BROKERS WITH SOME FURTHER PROBLEMS, BUT WE ASSUME THEY CAN HANDLE IT. THE RESOLUTION OF THIS TROUBLESOME PROBLEM SHOULD HAVE A VERY FAVORABLE IMPACT ON THE ECONOMY. THE FREEING OF 30 PERCENT OF THE OVER 400,000 BALES SOLD ON FUTURES WILL ADD OVER \$14 MILLION (20 PERCENT) TO ITS VALUE. WE NOW EXPECT THE 600,000 BALES AVAILABLE FOR EXPORT TO EARN SOMETHING IN THE RANGE OF \$130-140 MILLION IN 1974; DOUBLE 1973 COTTON EXPORTS. IT WOULD HAVE BEEN \$12 MILLION GREATER HAD THE GROWERS AGREED TO SETTLE IN LATE JANUARY WHEN PRICES WERE EVEN HIGHER.

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
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**TAGS:** EAGR, ETRD, NU  
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